



*Office of the United States Attorney  
Eastern District of Kentucky  
James A. Zerhusen, United States Attorney*

---

---

## **Officials from Two Kentucky Oil and Gas Companies Arraigned on Charges of Defrauding Investors of \$3 Million**

---

---

**FOR IMMEDIATE RELEASE**

**December 30, 2008**

**[www.usdoj.gov/usao/kye](http://www.usdoj.gov/usao/kye)**

*For information contact*

*Kyle Edelen (859) 685-4811*

*E-Mail: [Kyle.Edelen@usdoj.gov](mailto:Kyle.Edelen@usdoj.gov)*

**LEXINGTON, Ky.** — Six officials from Target Oil and Gas and Kentucky and Indiana Oil and Gas companies in Danville, Ky. were arraigned today in U.S. District Court for a 26-count indictment, issued earlier this month, that accused the defendants of defrauding their investors of more than \$3 million.

The indictment charged Michael Smith, who is the president of Target Oil and Gas and controlling interest holder of Kentucky and Indiana Oil and Gas of conspiring with his brother and vice president of Target Oil Christopher Smith, Christopher's son Shaun Smith, 27, of Cookeville Tenn., Ray Garton, 58, of Barrackville, W.Va., Mark Irwin, 26, of Cookeville, Tenn., and Joshua Scott Harris, 23, of Hustonville, Ky. with one count of conspiracy, 20 counts of mail fraud, and two counts of wire fraud. Michael Smith, 53, of Lancaster, Ky., Christopher Smith, 48, of Prestonsburg, Ky., Joshua Harris, and Mark Irwin were also charged with selling securities without a license. All six defendants pleaded not guilty to the charges.

The indictment alleged that from February of 2003 until February of 2008, the officials at the two companies conspired to create a scheme to defraud investors from several states that purchased shares in both companies' oil and gas well drilling programs. The officials are accused of collecting \$3, 192, 793.50 in investors money while only distributing \$37,882.00 in royalties.

The indictment accused the defendants of a conspiracy to create oil and gas drilling programs in Albany, Ky., Middlesboro, Ky., Corbin, Ky., Salyersville, Ky., Prestonsburg, Ky., and areas in Texas, West Virginia, and Tennessee.

According to the indictment, Michael Smith and geologist Ray Garton prepared or directed others to prepare drilling program brochures for potential investors. These brochures included misrepresentations and false statements to inspire potential investors to purchase shares in the programs.

The indictment alleged that the brochures included false statements about successes

of existing programs, specific wells that hit oil or gas, and geological reports prepared by Garton. The geological reports represented that Garton individually assessed the proposed drilling sites and offered geological information based on these assessments. However, the indictment alleged that Garton didn't performed the individualized assessments and prepared geological reports that were applicable only to the general region that included the proposed site.

Also, According to the indictment, Michael Smith and Christopher Smith intentionally failed to disclose to potential investors in the brochures that several states issued Cease and Desist orders against Target Oil. A Cease and Desist order is an order issued by a state entity that prohibits a company from certain business practices.

Seven states, including Kentucky, issued Cease and Desist orders that prohibited Target Oil from among other things, using unregistered brokers to sell unregistered securities and making untrue statements of material facts to potential investors. In 2003, the Kentucky Department of Financial Institutions entered into an agreed Cease and Desist order with Target Oil. The institution ordered Target Oil to stop selling securities to non accredited investors and to offer all material facts during the sale of an investment.

James A. Zerhusen, United States Attorney for the Eastern District of Kentucky, and Michael D. Galuppo, Special Agent in Charge of the United States Postal Service (USPS) jointly made the announcement today after the arraignment.

The case was investigated by the USPS and the Kentucky Department of Financial Institutions. The United States was represented by Assistant United States Attorney Frances Catron-Malone.

*The indictment of a person by a grand jury is an accusation only, and that person is presumed innocent unless proven guilty.*

— END —